

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 1061 – SB 1040

March 6, 2017

**SUMMARY OF ORIGINAL BILL:** Establishes the *Historic Rehabilitation Investment Incentive Act* (Act). Authorizes a tax credit against any state premium tax liability in an amount of 25 percent of the qualified rehabilitations expenditures for the rehabilitation of a certified historic structure, provided that: the rehabilitation meets standards consistent with the standards of the Secretary of the United States Department of the Interior for rehabilitation, as certified by the Tennessee Historical Commission (Commission); the certified historic structure is placed in service on or after January 1, 2017; and the qualified rehabilitation expenditures associated with the certified historic structure exceed \$5,000. Requires the tax credit to be claimed in three equal installments beginning with the year in which the certified historic structure or portion of the structure, attributable to the qualified rehabilitation expenditures is placed in service. Authorizes the credit to be allocated among some or all of the partners, members, shareholders, or other owners of any partnership, limited liability company, S-corporation, or other similar pass-through entity. Establishes that there is no limit on the number of allocations of all or part of the total credit claimed by this Act.

Requires the Commission to promulgate three forms to be submitted by an applicant: a form used to request designation of a property as a certified historic structure; a form used to request certification of a proposed rehabilitation as meeting the standards consistent with the standards of the Secretary of the United States Department of the Interior for rehabilitation; and a form used to request certification of a completed rehabilitation. Authorizes federal forms to be submitted instead if the applicant also applies for the federal historic rehabilitation tax credit. Requires the Commission to issue, concurrently with the certificate of completed rehabilitation, to the owner a tax credit certificate providing the amount of tax credit generated by the qualified rehabilitation expenditures incurred during the rehabilitation. Requires the Commission to promulgate rules within 90 days of the effective date of this Act, and authorizes the Commission to adopt a fee of no more than \$10,000 for applications and certifications.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue – \$53,900/FY17-18 and Subsequent Years/  
Historical Commission

Decrease State Revenue – \$1,074,400/FY17-18/State Premium Taxes\*  
\$3,223,100/FY18-19/State Premium Taxes\*  
\$5,371,800/FY19-20/State Premium Taxes\*  
\$6,446,200/FY20-21 and Subsequent Years/  
State Premium Taxes\*

Increase State Expenditures – \$53,900/FY17-18 and Subsequent Years/  
Historical Commission

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

\*The following funds/departments will be affected by the awarding of tax credits: General Fund, Second Injury Fund, and the Department of Commerce and Insurance. The extent to which any fund or Department will be affected cannot be determined with reasonable certainty.

#### IMPACT TO COMMERCE OF ORIGINAL BILL:

Decrease Business Expenditures – Exceeds \$1,074,400

**SUMMARY OF AMENDMENT (004236):** Deletes and replaces language of the bill without making any substantive changes to the legislation.

#### FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

**Unchanged from the original fiscal note.**

Assumptions for the bill as amended:

- The first year in which tax credits will be awarded will be FY17-18.
- Based on information provided by the U.S. Department of the Interior, National Park Service, Technical Preservation Services in the annual statistical reports, the average total rehabilitation expenditures in Tennessee that qualified for the federal historic rehabilitation tax credit was estimated to be \$25,784,623 for FY12-13, FY13-14, and FY14-15.
- The annual rehabilitation expenditures that would qualify for the 25 percent tax credit, as established by this bill as amended, are estimated to be \$25,784,623 in FY17-18 and subsequent years.
- The tax credit earned per year pursuant to this bill as amended is estimated to be \$6,446,156 (\$25,784,623 x 25%). The credit will be claimed in three equal installments, resulting in an annual amount of credit awarded of \$2,148,719 (\$6,446,156 / 3).
- Due to the time required to complete the rehabilitation of a project, place the project in service, and certify and review all qualified rehabilitation expenditures, the impact in the

first year (FY17-18) is estimated to be 50 percent of the full year impact, or \$1,074,360 (\$2,148,719 x 50%).

- The decrease in state revenue is estimated to be: \$1,074,360 in FY17-18; \$3,223,079 in FY18-19 (\$1,074,360 + \$2,148,719); \$5,371,798 in FY19-20 (\$1,074,360 + \$2,148,719 + \$2,148,719); and \$6,446,157 in FY20-21 and subsequent years (\$2,148,719 + \$2,148,719 + \$2,148,719).
- The following funds/departments are assumed to be affected by the estimated decrease in state revenue: General Fund, Second Injury Fund, and Department of Commerce and Insurance. However, the extent to which such funds/departments will be affected cannot be determined with reasonable certainty.
- Based on past information provided by the Tennessee Historical Commission, the Commission will require one additional position to administer the proposed program. This employee will: review documents to determine if they are fully completed, accurate and compliant with the established standards, work closely with the Commission's federal tax credit reviewer in order to ensure that projects using both the state and federal tax credit programs are in agreement, review plans and specifications, work with architects and property owners, make site visits, attend meetings, speak at public events about the program, and respond to inquiries from the public and other stakeholders.
- The recurring increase in the Commission's expenditures associated with this position is estimated to be \$53,857 (\$31,332 salary + \$9,728 benefits + \$2,397 FICA + \$10,400 travel, supplies and materials, and other).
- The Commission will set application and certification fees to offset the cost of administering the program. The recurring increase in the Commission's revenue is estimated to be \$53,857.
- Any impact on revenue as a result of additional projects that will be undertaken only as a direct result of this bill as amended that would not be completed under current law would be considered forgone revenue. Due to multiple unknown factors, the extent of forgone revenue cannot be quantified with reasonable certainty.
- Secondary economic impacts may occur as a result of this bill as amended. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of rehabilitation efforts that would be undertaken as a direct result of this bill as amended, additional commercial activity at restored historical properties, and increased property values at and around the restored properties. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

## **IMPACT TO COMMERCE WITH PROPOSED AMENDMENT:**

**Unchanged from the original fiscal note.**

Assumptions for the bill as amended:

- This bill as amended will result in a decrease in premium tax liability for individuals and businesses that rehabilitate certified historic structures and follow certain standards and criteria.
- The amount of tax relief provided to such individuals and businesses is estimated to be equal to 25 percent of qualified rehabilitative expenditures incurred by such individuals and businesses, equal to \$1,074,360 in FY17-18, \$3,223,079 in FY18-19, \$5,371,798 in FY19-20, and \$6,446,157 in FY20-21 and subsequent years
- Secondary economic impacts may occur as a result of this bill as amended. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of rehabilitation efforts that would be undertaken as a direct result of this bill as amended, additional commercial activity at restored historical properties, and increased property values at and around the restored properties. However, due to multiple unknown factors, any such impacts cannot be quantified with reasonable certainty.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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